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UNCLAS SECTION 01 OF 04 DJIBOUTI 000447

SIPDIS

STATE PASS TO DEPT OF ENERGY - FOR STEVE RICHARDS, FRANCIS HODSOLL, LINDSAY ROLAND, ALLAN JELACIC, ROY MINK, BOB DIXON, JOEL RENNER, GORDON BLOOMQUIST, TOM SPERL;  
STATE PASS TO USGS - FOR MIKE FOOSE AND BRENDA PIERCE;  
STATE PASS TO USAID - FOR GORDON WEYNAND, WALTER HALL, MARK SCHLAGENHAUF, MARK MURRAY, KEVIN WARR, SEAN MCCLURE, HERSCHELLE CHALLENOR;  
STATE PASS TO EPA - FOR MYRA FRAZIER;  
STATE PASS TO OPIC - FOR MARYSUE SHORE AND SAM SMOOTS;  
STATE PASS TO USTDA - FOR HENRY STEINGASS AND CARRIE WALCZAK;  
STATE PASS TO EX-IM - FOR JOHN RICHTER;  
STATE FOR BOB MANNING, JEFF HAENI, FERNANDO ECHAVARRIA, JULIA ROTTIER, GRIFF THOMPSON;  
DOC FOR AARON BRICKMAN AND JOSEPH AYOUB.

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [EFIN](#) [ENRG](#) [SENV](#) [PREL](#) [DJ](#) [GM](#) [XW](#)  
SUBJECT: DJIBOUTIAN GOVERNMENT COMMITTED TO PURSUING GEOTHERMAL ENERGY

REF: A. SECSTATE 347715  
[1B](#). DJIBOUTI 00111 (NOTAL)

[11. \(U\) SUMMARY:](#) Djibouti was the site of a kick-off conference for the African Rift Valley Geothermal Development Facility (ARGeo) March 17-20, 2004. The conference focused on energy needs in Djibouti, next steps for the exploration and exploitation of geothermal resources in Djibouti and lessons learned by Kenya and other geothermal experts. The ARGeo project is a collaborative effort of United Nations Environment Program (UNEP), Global Environment Fund (GEF), and the German Development Bank (KFW). ARGeo is designed to aid the Rift Valley countries in developing their geothermal energy resources within the public and private sectors. The project organizers see Djibouti as a prime take-off point for the ARGeo program, as there has already been research done on geothermal resources, a private investor identified, and donor interest in the project noted. The Government of Djibouti (GODJ) publicly expressed its commitment to pursuing geothermal energy as an answer to the high cost of energy, which stymies business growth and exacerbates high unemployment. END SUMMARY.

#### THE DJIBOUTIAN PERSPECTIVE

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[12. \(U\)](#) The African Rift Valley Geothermal Development Facility conference opened March 17 in Djibouti. Pol/Econ and Econ/Comm Assistant attended all sessions. Acting Djiboutian Minister of Energy, Saleban Omar Oudine, made opening remarks and also read a message from President Ismail Omar Guelleh. (Note: The current Minister of Energy, Mohamed Ali Mohamed, is convalescing in France. Oudine currently holds the position of Minister of Commerce and Industry.) The Government of Djibouti (GODJ) has placed importance on reduction of poverty in Djibouti. Both Oudine and Guelleh named reduction of energy cost as essential for economic growth and the fight against poverty. GODJ sees the cost of fuel energy as a major inhibitor to economic growth and diversification of energy sources, including geothermal energy, as the solution. President Guelleh's message emphasized the importance of ARGeo to Djibouti's geothermal development. He also implored all Rift Valley countries to consider seriously and take advantage of the ARGeo initiative. The acting Minister of Energy re-iterated President Guelleh's request to the international community to assist Djibouti in its efforts to develop its geothermal resource.

[13. \(U\)](#) Electricite de Djibouti (EDD), the Ministry of Energy, the Agence National pour le Promotion de l'Investissement (ANPI) and experts from the Centre des Etudes et Recherche de Djibouti (CERD) presented the current state of energy needs and investment in Djibouti. All electricity in Djibouti is currently generated by diesel fuel power plants. EDD sells electricity at rates of 41 Djiboutian Francs (DF) for residential consumers, 51 DF for commercial users, and 52 DF for bulk consumers (approx. 23, 29 and 29 cents US). EDD quoted average total cost of production at around 20 cents. Of that amount fuel costs are between seven and nine cents. The bulk of the remaining cost of production is reportedly taxes on materials imported for production. With the proposed geothermal power plant by Geothermal Development Associates (GDA), an

American company based in Nevada, EDD could buy electricity at approximately half current costs and bypass the taxes on imported materials.

#### LESSONS LEARNED AND ADVICE

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14. (U) The conference brought together major geothermal developers from all over the world to discuss the ARGeo program and offer insights to the GODJ on how to progress with geothermal energy. Kenya was the most effective delegation as one of the first African countries to develop geothermal energy with private investment and a long history of government run development. The Kenyan perspective promoted continuous but staged development, with the government bearing a significant portion of the exploratory risk. Kenya emphasized the benefits of geothermal energy as a green resource and offered its assistance in the development process. The experts from Kenya commented that the best way to develop geothermal industry was to start with a small plant (5MW), train locally, learn early how the process works, and later move to a larger plant (30 MW and up). However, the Kenyans and other visiting experts highlighted the point several times that a larger plant is always more economical.

15. (U) Among the most salient pieces of advice offered by the Kenyans, was the admonition to provide an enabling environment for private investment by providing solid fiscal and legal regimes, as well as charging private investors low customs duties and taxes. Kenya also emphasized the advantage of having private companies run power generating facilities, keeping government money free to fund other programs.

16. (U) Closing session debates were contentious over the best way to develop geothermal resources in Djibouti. One camp, which included the Djiboutians, promoted the "start small and learn as you progress" method to mitigate the risk of investment to the government. The other side of the table, urged Djibouti to take the opportunity that was presented with the 30 MW plant proposed by GDA. GDA countered that it would not have come back after 5 years of negotiation if it were not sure that the project would succeed. GDA also assured GODJ that the full brunt of the risk of investing in Djibouti would be shouldered by GDA and its investing partners.

#### HOW ARGEO WILL WORK

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17. (U) ARGeo is designed to provide access to information, experience, technical and material assistance; identify obstacles to development and propose solutions; identify financial mechanisms to manage risks; eliminate technical barriers; and reduce overall risk. GEF, KfW and Italy have made US\$ 1 million available for the preparation phase of ARGeo. The program is expected to be active by early next year. The project organizers stated that a team of experts would be visiting each of the eligible countries to assist them in preparing their proposals. GEF requests that the countries then submit the proposals to them to be considered for funding and assistance.

18. (U) Within the framework of ARGeo there are two funds that will assist countries in the development process. The risk coverage fund will help reduce the direct cost to governments associated with exploratory and production drilling. The transaction counsel fund will provide resources for governments to get the necessary technical and financial advice throughout the PPA and contract negotiations. These funds will contribute a portion, not fully fund the projects proposed. GEF emphasized that private companies chosen for projects should be able to prove that they have adequate financing at their disposal for all stages of the project.

19. (U) Ambassador and Pol/Econ met twice at the Embassy with Martin Booth, President of GDA, and Stephen Hirsch, UNEP Geothermal Consultant, to discuss outcomes of the conference and private meetings to explore their vision of next steps in GDA's quest of a contract to develop geothermal energy in Djibouti. Booth stated his belief in the continued interest of his company in pursuing the project, but that project financing remains his company's single greatest hurdle. Ambassador suggested possible interlocutors for GDA in terms of financing possibilities, including some of the development funds of Gulf countries. She also urged that opportunities with Overseas Private Investment Corporation (OPIC) be explored. Booth pledged to pursue both options. Ambassador also conveyed to

Booth the willingness of the Embassy to do all that it could to support and eventual contract proposal from GDA to the Government of Djibouti.

¶10. (U) COMMENT: At the beginning of the conference, the GODJ seemed unconvinced of the practicality of geothermal energy. At the end of the conference, however, it appeared more convinced. The GODJ stated at the end of the conference that it wanted ARGeo to be the framework it worked through to develop geothermal energy with private sector involvement. The GODJ also mentioned its interest in developing small-scale/ off-grid applications, such as small local plants that serve a specific area not reached by the main power grid.

¶11. (U) COMMENT CONTINUED: There was contention between the GODJ and GDA on output capacity of a proposed geothermal facility. The GODJ focused on perhaps a small initial plant generating only 5 MW of power. GDA made clear, however, that it would not be interested in building a facility that would provide less than 30 MW of power. The general consensus at the end of the conference was that the ball is in ARGeo's court, and that the Djiboutians are waiting for the first move to come in the form of an ARGeo funding and assistance package.

END COMMENT.

RAGSDALE